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THE ONTARIO MEDICAL ASSOCIATION

SUBMISSION TO

THE ONTARIO COMMITTEE ON TAXATION

OCTOBER 1963

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Mr. Chairman and Members of The Ontario Committee on Taxation

The Ontario Medical Association which speaks on behalf of 7,000 member doctors who are largely responsible for the health of the citizens of this province is pleased to make the following submission on their behalf. Many of the recommendations have been presented by the Canadian Medical Association in it's submission to the Royal Commission on Taxation as the areas of interest in the subject of taxation (particularly income tax) are applicable at both the federal and provincial level. This presentation covers three areas of our concern - taxation as it affects the public currently; as it affects the maintenance of an adequate supply of well qualified physicians; and as it affects practising physicians.

REMOVAL OF FEDERAL SALES TAX ON DRUGS

We are concerned about the application of federal sales tax to the cost of drugs for two reasons, namely the general public is charged sales tax on prescriptions whereas hospitals are exempted because it is administratively impossible to do otherwise, and secondly the cost of prescription drugs to the public is compounded by applying percentage mark-ups to the sales tax as well as the manufacturer's price.

We believe that federal sales tax should be applied to the retail price as municipal and provincial taxes are applied and feel that this procedure would eliminate the present administrative problem mentioned above and allow greater flexibility in determining taxable and non-taxable items.

We would, therefore, recommend:

(a) That consideration be given to applying the federal sales tax at the retail level rather than the manufacturers' level; and,

(b) That the sales tax be removed from prescribed drugs.

Mr. Chairman and Members of The Ontario Committee on Taxation:

The Ontario Medical Association which speaks on behalf of 7,000 member doctors who are largely responsible for the health of the citizens of this province is pleased to make the following submission on their behalf. Many of the recommendations have been presented by the Canadian Medical Association in it's submissions to the Royal Commission on Taxation as the areas of interest in the subject of taxation (particularly income tax) are applicable at both the federal and provincial level. This presentation covers three areas of our concern - namely that it affects the public currently as it affects the maintenance of an adequate supply of well qualified physicians; and as it affects practising physicians.

FINANCING OF PROVINCIAL HEALTH PROGRAMS

The Ontario Hospital Services Commission has been paying the largest portion of the net operating costs of Ontario hospitals since 1959. It has been experiencing substantial increases in hospital operating costs each year from the inception of the program and yet the premiums paid by the public have remained constant. The additional financing required has been derived in part from the Ontario retail sales tax and in part from further cost sharing by the federal government. We believe that the general public should be kept aware of the increasing costs of the Ontario hospital care program and we therefore, recommend that:

> Increases in hospital operating costs paid by the Ontario Hospital Services Commission should be reflected in the premiums paid by the public in the same proportion that the premiums bear to the contributions by the Province of Ontario and the federal government.

We believe there may be a tendency for people to overutilize the hospital facilities, particularly when the major portion of their hospital bills is borne by the Ontario Hospital Services Commission. We believe utilization could be controlled better by having the patient pay a minimum per diem charge for each day spent in hospital. This would permit more people to use the existing hospital beds in Ontario each year as well as provide a source of revenue to meet the ever increasing costs of hospital operation. We therefore, suggest -

> That insured patients who are economically able, be required to pay a per diem charge for each day spent in hospital.

We believe that health is a provincial matter and that provincial health programs may be hampered by the existing federal health grant system. We therefore, recommend that:

> The federal health grant programs be reviewed at an early date, particularly from the standpoint of their application to the Province of Ontario.

Although we expect that the Province of Ontario will become involved in the financing of Medical Care for certain segments of the population,

FINANCING OF PROVINCIAL HEALTH SERVICES

The Ontario Hospital Services Commission has been paying the largest portion of the net operating costs of Ontario hospitals since 1959. It has been experiencing substantial increases in hospital operating costs each year from the standpoint of the persons and yet the premiums paid by the public have remained constant. The additional financing required has been derived in part from the Ontario Retail Sales Tax and in part from funding made available by the Federal Government. We believe that the general public should be kept aware of the increasing costs of the Ontario hospital care program and we therefore, recommend that;

Increases in hospital operating costs paid by the Ontario Hospital Services Commission should be reflected in the premiums paid by the public in Ontario through Provincial Sales Tax and in part from funding made available by the Federal Government.

We believe there may be a tendency for people to overutilize the hospital facilities, particularly when the major portion of their hospital bills is borne by the Ontario Hospital Services Commission. We believe utilization could be controlled better by having the patient pay a minimum per diem charge for each day spent in hospital. This would permit more people to use the existing hospital facilities in Ontario each year as well as provide a source of revenue to meet the ever increasing costs of hospital services. We therefore, suggest -

That insured patients who are admitted to hospital be required to pay a per diem charge for each day spent in hospital.

We believe that health is a provincial responsibility but the provincial health programs may be hampered by the existing federal-provincial system. We therefore, recommend that;

The Federal Health Grant Program be revised at an early date, particularly from the standpoint of public participation in the provision of capacity.

Although we expect that the Province of Ontario will become involved in the computerization of medical records, the overall economy of the operation

we prefer to restrict our remarks at this time to the existing problems.

DEDUCTIONS ALLOWED FOR PERSONAL MEDICAL EXPENSES

The majority of people in Ontario are prepaying the cost of their medical care to-day and in many cases, employers are contributing toward these costs to varying degrees. As a result, varying amounts of tax free fringe benefits exist and this creates inequities among employees receiving these benefits and in particular, creates inequities for people who must pay the total premiums out of tax paid earnings. We believe that:

(a) The taxpayer should have the option of deducting from taxable income the premiums paid from his own resources or the actual expenses which haven't been insured together with the benefits paid on his behalf by insuring agencies and the total exceed the percentage of net income used to determine claimable medical expenses; or as an alternative

(b) Consideration might be given to adding the premiums paid by employers to taxable income of the recipients of these fringe benefits.

When the Ontario Hospital Services Commission began paying the hospital bills for the majority of the population in Ontario in 1959, the hospital accounts for standard ward care were deemed non-allowable medical expenses in determining taxable income, and yet the "3% of Net Income" required in medical expenses before any deduction was available, was not changed. Hospital bills represent a substantial portion of medical care costs and we believe that:

Consideration should be given to reducing the percentage of Net Income required to obtain tax relief from medical expenses.

EDUCATION

Specialization and automation have demanded increasing numbers of university graduates with the result that the educators, industry and

government are constantly looking for means of attracting more capable young people into various schools of higher education.

Recruitment of physicians has become a primary concern of the medical profession as it has been estimated that there will be a national annual deficit of 500 medical graduates by 1980. The present relatively favourable ratio of doctors to population (Ontario) (1 - 764) has been achieved mainly by a substantial net immigration of physicians (which we do not expect to continue) during the past decade.

The training of medical doctors is long and arduous and is expensive for the individuals and often their parents. The tuition fees and living accomodations alone at Ontario universities vary between $7,400. and $7,800. over the six year course. Following graduation, most physicians take additional training varying from one or two years in the case of a general practitioner to five or more years for a specialist. Their expenditures continue after interneship due to repayment of loans, purchase of equipment and establishment of practice and these are over and above what is required for their personal living.

These financial considerations have a bearing on the number of students applying to the faculties of medicine and also have a bearing on the number of graduates leaving Canada each year. It should be remembered that the emigration of a Canadian medical graduate is not only the loss of a well trained physician but a financial loss to the people of Ontario and Canada becuase of the monies invested in his special education.

The following recommendations are attempts to provide some incentives for students considering entering medicine and for recent graduates to remain in Canada.

We would, therefore recommend for students in full-time attendance at a university as an undergraduate or graduate, that:

1. All costs of tuition (already allowable), books, equipment, room and board, necessary travel, and interest on monies borrowed to finance their education be classified as allowable expenses deductible by them from income when supported by appropriate vouchers and receipts; and that:

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2. Students have the option of deducting these expenses from income in the year in which the expenses are incurred or of deferring all or part of the deductions until such time as they obtain their university qualifications, or their licenses or qualifying degrees if they are proceeding to professional qualifications, and engage in substantially gainful employment.

We would recommend that where parents are paying the costs of higher education for their dependents that:

The parents should be permitted to deduct from income all costs of tuition, books, equipment, room and board incurred by the dependents.

MODIFICATIONS IN THE CALCULATION ON IMCOME TAXES PAYABLE

We believe that there are certain earning periods which may vary significantly from the norm. This may have particular application in the practice of medicine. Examples of such earning periods are the first and perhaps last years in practice, time taken to do post-graduate studies and time lost due to sickness or accident. We feel that the income taxes payable in normal earning periods should be affected by the income taxes payable in below average earning periods and we therefore, recommend that:

An "averaging" provision be made available whereby net income may be averaged for five year periods for calculation of income taxes payable if the difference between any two of the five years exceeds, for example, 50% of the poorest year.

Earlier in our brief, we expressed concern which we believe is shared by most Canadians with respect to the number of skilled workers and professionals leaving Canada. In our opinion, consideration should be given to methods of improving Canada's competitive position and we recommend that:

Modifications be made in the present graduated tax rates to provide an incentive to skilled workers and professionals to remain in Canada.

COST OF SHORT TERM STUDY AND REFRESHER COURSES

As in all professions, there is a need for physicians to continue their studies after graduation. The practising physicians in Ontario feel that this is particularly true to-day because of the great emphasis being placed on scientific research. The basic mediums for this type of study have been medical books and journals, medical associations (post-graduate education programs) and scientific sessions held during medical conventions. The costs of the above methods of study have been considered current expenses, that is expenses incurred to keep the doctor abreast of the most recent methods and techniques of treating disease which confront him in his present field (e.g. general practice or one of the specialties) and hence are allowable dedutions from taxable income. We feel that refresher courses (as distinguished from formal post-graduate courses for specialty certification) are merely extensions of the basic methods of short term study and therefore, the expenses of attending such courses should be allowable deductions in determining taxable income.

We recommend that:

1. Officially organized refresher courses in Canada and the United States should be recognized, and the expenses incurred in attendance at such courses should be deductible for tax purposes.
2. The expenses claimed be reasonable and the taxpayer show:-
   (a) The dates and place of such a refresher course supported by a certificate of attendance from the sponsoring agency;
   (b) The expenses incurred, including -
      1. Transportation expenses
      2. Registration or other fee charged for the course
      3. Maintenance, inclusive of meals and hotel expenses

ALLOWABLE DEDUCTIONS FOR SALARIED PHYSICIANS

Few salaried physicians are able to claim medical association fees, the cost of books, journals, equipment and convention expenses as deductions from taxable income unless they are considered necessary by the employer. The employer deems them necessary either by paying them or specifying (in the employment contract) that they are necessary. Salaried physicians need to maintain their skills just as physicians in private practice do.

The present tax application in the case of salaried physicians produces manyinequities. Employees whose expenses are paid by the employer receive a tax free fringe benefit; employees who pay for these expenses themselves (and do not presently qualify to claim them) do so out of tax paid earnings. Employers who pay these expenses may have a competitive advantage over those who don't. Profit making corporations deduct the expenses paid from taxable income; non-profit making institutions aren't concerned with this aspect but usually are concerned with a strict budget.

We would therefore, recommend that consideration be given to legislation which, in so far as it affects the medical profession, would allow all salaried physicians to claim as deductions reasonable expenses paid from their own resources for:

1. Annual membership fees payable to the Ontario Medical Association and other recognized local, provincial, federal or international medical associations;
2. Medical books, scientific journals and equipment;
3. Attendance at conventions; and
4. Attendance at refresher courses.

CAPITAL COST ALLOWANCES FOR AUTOMOBILES

We believe that physicians who are practising some of the specialties of medicine are being penalized in the amounts allowed with respect to the capital cost allowances on their business automobiles as deductions from taxable income because in some instances they may not be making as

great a number of home and hospital visits as general practitioners.

The problem exists because the tax department interprets the definition of the word "use" in Section 20 (6)(e) of the Income Tax Act on the basis of the number of miles travelled. The amount of capital cost allowance deductible from taxable income is determined by the proportion of miles driven on business to the total number of miles driven.

You can appreciate that some specialists' business automobiles are seldom available for personal use even though they may not require them frequently to make home and hospital visits. Specialists probably make capital investments in their business automobiles similar to those of general practitioners but because their method of practice differs, they are not allowed to make the same deduction from taxable income for capital cost allowance.

For these reasons we believe that the definition of the word 'use' as it applies to capital cost allowances for doctors' cars should not be related to the number of miles travelled but rather that the definition should take into consideration the essential function of availability as it applies to medical practice. We therefore, recommend that:

> An amendment be made to the Act which distinguished between situations wherein an over-riding necessity for the property is inherent because of the nature of the tax-payer's business and other situations wherein the use of the property is ancillary to the business. If the property was deemed to be a necessary and integral part of the tax-payer's business we would suggest that the full amount of the cost should be used to determine capital cost allowances as other use would be sporadic or occasional. If, however, the property has an ancillary use only, the allocation should be made on the basis now set out in Section 20(6)(e).

CLOSING REMARKS

Although most of our recommendations have been made from the view

point of the physician, we are sure they have application to other professions as well. We have not offered alternate methods of keeping the provincial revenues at the present level as we felt our requests although significant to those concerned would not have a serious effect on the over all economy.

All of which is respectfully submitted,

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President,
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